CIO focus turns to innovation

A report from business technology solutions provider UXC Connect

Telsyte

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Introduction

Every year Australian enterprises spend billions of dollars on delivering IT services for internal process automation and customer or partner management. Organisations have the option to manage IT internally or outsource to a third-party provider.

Many organisations also adopt a selective approach to outsourcing where some parts of their IT service requirements are managed by third-parties while others are kept in-house.

In October 2013 Telsyte surveyed more than 450 Australian CIOs, CEOs and IT decision makers on their outsourcing strategies for 2014, including 194 from organisations with more than 500 employees. Most organisations continue to manage their IT programs in-house; however, outsourcing is a key feature of businesses that have a focus on innovation.
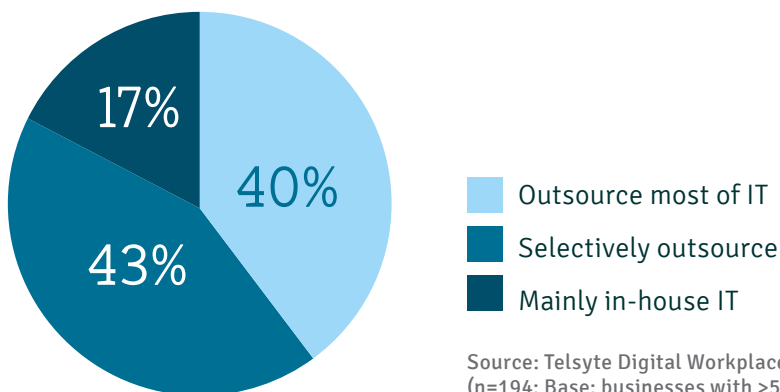
This paper examines the nature of large Australian businesses that are engaged in outsourcing, their spend intentions and how organisations which engage in outsourcing arrangements are more likely to spend greater than 25 per cent of their IT budget on innovative projects compared with those organisations with only in-house IT.

Australia's IT outsourcing landscape

With constant pressure to deliver business outcomes and innovative projects, Australian CIOs have taken to outsourcing all or part of their ICT environment with varying degrees of success. Organisations can hand over their entire ICT operations to suppliers capable of managing the business processes end-to-end, or a selective approach can be adopted where sections of the business, like mobile device management, are outsourced.

On average, more than half of Australian organisations outsource some or all of their ICT operations

Figure 1: Outsourcing penetration in Australia among large organisations

- 17%
- 40%
- 43%

- Outsource most of IT
- Selectively outsource
- Mainly in-house IT

Source: Telsyte Digital Workplace Study 2014
(n=194; Base: businesses with >500 employees)

Telsyte's research indicates more than half of Australian businesses (with greater than 500 employees) outsource some or all of their IT to third-party suppliers. The degree of outsourcing does not vary significantly according to company size, however, larger organisations (more than 2000 staff) are more likely to selectively outsource their IT.
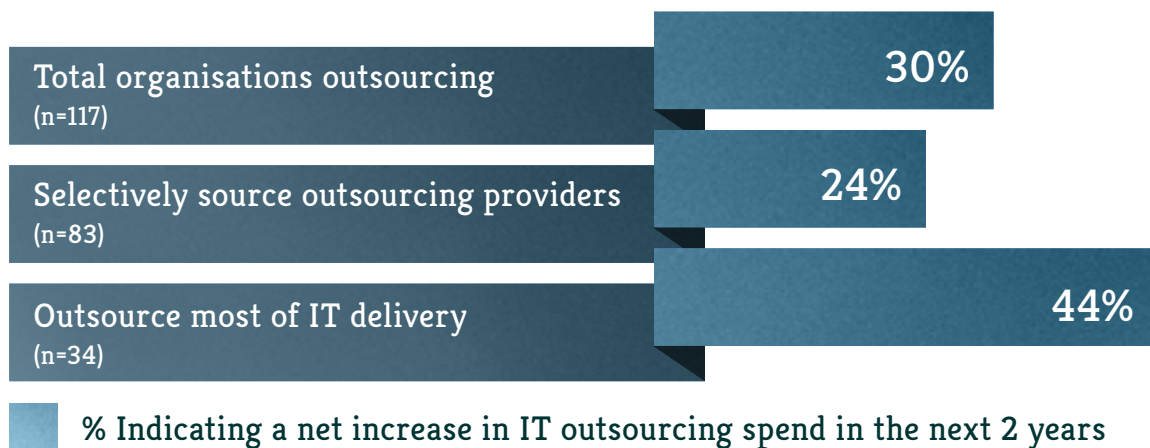
Telsyte predicts selective outsourcing will become even more favourable as continued adoption of cloud services allows CIOs to procure IT solutions to meet specific business outcomes.

With options for selective, standards-based outsourcing services, Australian CIOs have an opportunity to reduce resources spent on operations and drive more innovation utilising both in-house staff and service providers.

Outsourcing businesses step up outsourcing spending

Nearly a third of large Australian business that currently selectively or completely outsource ICT are anticipating a net increase in outsourcing spending over the next two years. Some 24 per cent of organisations that selectively outsource intend to spend more on outsourcing. A much larger share (44%) of organisations already outsourcing most of their IT service delivery plan to increase their outsourcing spending over the next two years.

Figure 2: How outsourcing spending is set to change in the next 2 years

Total organisations outsourcing (n=117) — **30%**

Selectively source outsourcing providers (n=83) — **24%**

Outsource most of IT delivery (n=34) — **44%**

% Indicating a net increase in IT outsourcing spend in the next 2 years

Source: Telsyte Digital Workplace Study 2014 (n=117; Base: businesses with >500 employees, those that outsource some or all their ICT)

With organisations committed to existing outsourcing arrangements looking to spend more on outsourcing, this is a good indication CIOs are satisfied outsourcing is adding value to the business. Telsyte expects outsourcing and managed services to grow in 2014 across a range of areas including e-commerce, application hosting and network security. This is being driven by the availability of more enterprise-level cloud and managed outsourcing services and a desire by CIOs to reduce costs and maximise the return on IT investments.

Among large Australian organisations that currently outsource 30% intend to increase their spending on outsourcing over the next two years

Skills valued in 2014 as capital investment loses favour

Telsyte's research into IT and business priorities highlights changes in CIO spending intentions and strategic focus areas. In 2014, capital investment has dropped as a priority compared to 2013 as businesses increasingly shift to OPEX financial models for many services.

Telsyte has identified an increasing priority for in-house skills and workforce acquisition and retention. Even with an increasing interest in cloud and outsourcing, CIOs are ever more wary of the value of highly skilled in-house support and development staff, and outsourcing providers need to facilitate all key priorities, not just cost savings.
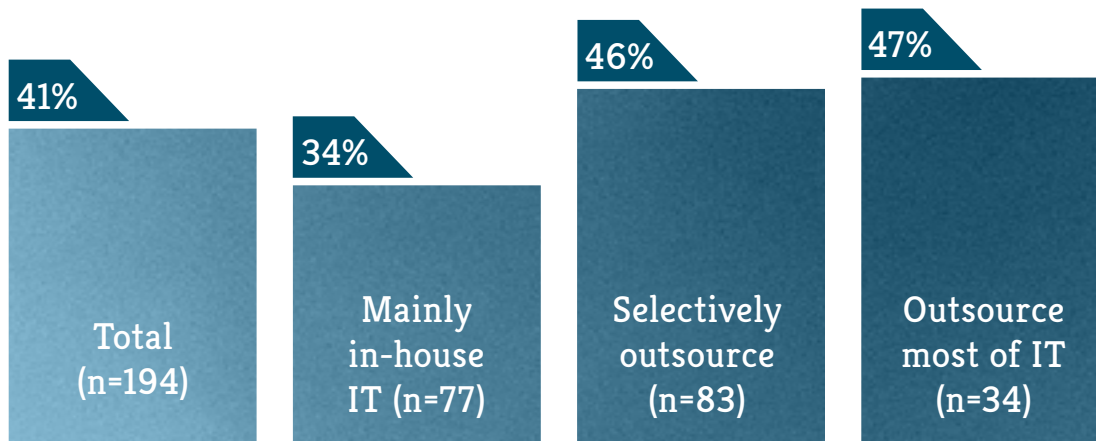
Outsourcing businesses spend more on innovation

Telsyte's research clearly indicates a correlation between outsourcing penetration and innovation. Organisations which engage in outsourcing arrangements (selective and most of IT) are more likely to spend greater than 25 per cent of their IT budget on innovative projects compared with those organisations with only in-house IT.

Outsourcing arrangements and cloud services can take away operational aspects of IT management – from desktop management to voice communications – and in the process empower in-house staff to work on value-adding activities and more innovative projects.

IT and business innovation takes many forms including developing the workplace of the future, better customer service, multi-channel e-commerce, online portals and the social enterprise.

Organisations that use >25% of their ICT budget on innovation

41%	34%	46%	47%
Total (n=194)	Mainly in-house IT (n=77)	Selectively outsource (n=83)	Outsource most of IT (n=34)

Source: Telsyte Digital Workplace Study 2014 (n=194; Base: businesses with >500 employees)

Telsyte research indicates that for most Australian CIOs, productivity, cost savings and process improvement are the foremost business priorities for 2014. CIOs should also consider how business transformation and innovation programs can be used as a way of reducing resources spent on operational tasks.

Innovation in processes and service delivery can lead to reduced waste, new product development methods and a more efficient enterprise.

Conclusion

Australian CIOs that outsource all or part of their IT operations are successfully channelling more resources into innovation rather than operations. Organisations which engage in outsourcing arrangements (selective and most of IT) are more likely to spend greater than 25 per cent of their IT budget on innovation compared with organisations managing mostly in-house IT.

CIOs should exploit their options for how IT outsourcing can reduce an organisation's reliance on operational processes that unnecessarily burden in-house staff and at the same time empower people to work on adding more value to the business.

Consumers and business professionals are increasingly expecting an always-on economy and IT innovation is crucial for developing the workplace of the future, better customer service and higher quality products and services.

Outsourcing spending is expected to grow in Australia with 30 per cent of large organisations (with more than 500 employees) anticipating a net increase in outsourcing spending over the next two years. Most of the new spending activity is among organisations which are already committed to some form of outsourcing arrangement with 44 per cent of organisations already outsourcing most of their IT planning to increase spending.

With CIOs focused on productivity, cost savings and process improvement in 2014, vendors of cloud and outsourcing services need to deliver on operational processes for organisations to realise the innovation opportunity.

About this report

This report was commissioned by UXC Connect and independently produced by Telsyte. The findings and insights contained in this report were derived from the Telsyte Digital Enterprise Market Study 2014. The views contained in this report represent the collective experience of the Telsyte analyst team without bias or influence from any third-party.

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